



# Monthly Economic Update

## August 2002



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8866

- **National Economic Outlook.** The latest round of monthly economic indicators suggests that the economy continues to expand albeit at a weak and uneven pace. The Conference Board's Index of Leading Indicators remained relatively flat since December suggesting that economic growth will be sluggish in the short-term though the likelihood of a double-dip recession seems remote. Three factors contributed to such sluggishness – the stock market, the employment situation, and consumer sentiment.
- **Stock Market, Employment, and Consumer Attitudes.** While the uncertainty of the stock market has been propelled by both psychological and economic factors, it is a barometer in assessing current and expectations of future corporate earnings. Since the beginning of the bear market (March 2000), corporate earnings declined 22.2%, the broad-based S&P 500 stock index decreased almost 40% and the Washington Post-Bloomberg Regional stock index is down 28.5%.  
Because of declining earnings, corporate executives remain reluctant to either increase the number of hours per employee or hire new employees. The stock market performance also continues to have an effect on consumer attitudes. Consumer sentiment in the region has declined 16.8% since August of last year.
- **Interest Rates.** While the stock market, employment, and consumer attitudes are the weak indicators of near-term economic performance, interest rates remain the most favorable indicators for long-term sustainable growth. Two factors have contributed to historically low interest rates: an accommodative Federal Reserve monetary policy and low inflation. Since July 2001, the core inflation rate increased 2.2% at the national level and 3.1% for the region. The higher regional rate is due to the cost of housing, with the national rate up 4.2% compared to 6.9% for this region.
- **Construction.** Over the period January-July 2002, the number of construction projects decreased 10.4% in the County compared to a similar period last year, with residential construction decreasing 12.5%. Housing permits also decreased the first seven months of this calendar year at a rate of 5.1% while non-residential permits decreased 5.9%.
- **Housing Sales.** Housing sales in the County decreased 15.0 % for the month of July and 2.3% calendar year to date through July. However prices continued to increase with a 15.7% jump in July and 19.9% since the beginning of the calendar year. With mortgage interest rates at their lowest level since the 1960s, thereby boosting refinancing of existing mortgages, recordation tax revenues for the County continue to experience solid gains.
- **Personal Spending, Retail Trade, and Sales Tax.** Consumers continue to spend despite their pessimism about the economy. Retail sales nationally increased 6.7% in July over the past year. While sales tax receipts in Maryland as a whole grew 1.5% during the January-July 2002 period, receipts in the County increased only 0.9% over the same period.
- **Hotel-Motel Industry.** From the September 2001 through July 2002 period, lodging revenues from the Montgomery County hotel-motel industry decreased 14.7% compared to the September 2000-July 2001 period. Since 9/11, the amount of revenues lost by the County's hotel industry is estimated at \$25.9 million and the decline is primarily due to a drop in occupancy rates. This loss represents close to \$2 million in lower hotel-motel tax revenues for the County. According to a recent George Washington University study, the Greater Washington metropolitan region lost \$286 million, or 13%, of lodging revenues since 9/11 compared to the September 2000 – July 2001 period.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2001
				2002	2001	
Leading Indicators						
National	July	-0.4%		0.3%		2.5%
Washington MSA	June	1.2%		0.9%		-0.9%
Consumer Confidence Index						
National	August	-4.0%		18.0%		-26.4%
South Atlantic Region	August	-9.0%		-16.8%		-23.9%
Consumer Price Index						
All Items						
National	July	0.1%		1.5%		2.9%
Washington - Baltimore CMSA	July	0.5%		2.3%		2.6%
Core CPI						
National	July	0.2%		2.2%		2.7%
Washington - Baltimore CMSA	July	0.9%		3.1%		3.1%
Retail Trade						
National (sales)	July	6.7%		3.4%		3.7%
Maryland (tax)	July	1.7%		1.5%		3.0%
Montgomery County (tax)	July	-0.5%		0.9%		3.8%
Employment						
National	July	135,289,000	136,385,000	133,901,000	135,309,429	135,073,000
- Percent Change		-0.8%		-1.0%		-0.1%
Washington PMSA (at place)	July	2,788,800	2,803,700	2,786,400	2,782,000	2,794,300
- Percent Change		-0.5%		0.2%		2.8%
Montgomery County (resident)	June	489,855	482,683	482,754	474,688	477,701
- Percent Change		1.5%		1.7%		0.8%
Montgomery County (payroll)	Dec. 2001	458,785	460,420	449,939	447,744	447,744
- Percent Change		-0.4%		0.5%		4.9%
Unemployment						
National	July	6.0%	4.7%	6.0%	4.5%	4.8%
Maryland	July	4.2%	4.2%	5.0%	3.9%	4.1%
Washington PMSA	July	3.6%	3.2%	3.8%	2.7%	3.1%
Montgomery County	July	2.7%	2.4%	3.1%	2.0%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	July	\$114,196	\$115,384	\$984,799	\$715,241	\$1,353,664
- Percent Change		-1.0%		37.7%		15.4%
Residential (\$ thousand)	July	\$50,682	\$87,337	\$375,077	\$411,000	\$682,768
- Percent Change		-42.0%		-8.7%		17.2%
Non-Residential (\$ thousand)	July	\$63,514	\$28,047	\$609,722	\$304,241	\$670,896
- Percent Change		126.5%		100.4%		13.6%
Building Permits (Residential)						
National	July	157,340	139,583	1,009,345	970,946	1,610,766
- Percent Change		12.7%		4.0%		1.2%
Maryland	July	2,517	2,668	16,928	16,655	28,412
- Percent Change		-5.7%		1.6%		-6.4%
Montgomery County	July	469	321	2,625	2,766	5,091
- Percent Change		46.1%		-5.1%		13.8%
Building Permits (Non-Residential)						
Montgomery County	July	182	210	1,128	1,199	2,102
- Percent Change		-13.3%		-5.9%		23.9%
Real Estate						
National						
Sales	July	5,330,000	5,100,000	5,610,000	5,320,000	5,296,000
- Percent Change		4.5%		5.5%		2.8%
Median Price	July	\$162,800	\$151,700	\$155,600	\$144,400	\$147,800
- Percent Change		7.3%		7.8%		6.3%
Montgomery County						
Sales	July	1,513	1,780	8,732	8,933	15,489
- Percent Change		-15.0%		-2.3%		4.8%
Average Price	July	\$324,025	\$282,508	\$310,323	\$268,002	\$274,522
- Percent Change		14.7%		15.8%		8.1%
Median Price	July	\$261,000	\$225,500	\$243,421	\$203,043	\$215,000
- Percent Change		15.7%		19.9%		13.2%